

# Tata Motors

BUY

YTFDY13 JLR sales up 31% yoy

CMP: Rs278

Target Price: Rs299

## Wholesale volume up 13% yoy in August 2012

Tata Motors' JLR sales (wholesale) for August 2012 were less than estimated at 24,060 units up 13% yoy (down 11% mom). Land Rover sales of 21,100—up 18% yoy (down 8% mom)—helped pull up overall sales as Jaguar sales declined 13% yoy and 27% mom to 2,960 units.

### August sales up 13% yoy, down 11% mom

	Aug12	Aug 11	yoy (%)	Jul 12	mom (%)	YTFDY12	YTFDY13	yoy (%)
JLR	24,060	21,242	13.3	26,921	(10.6)	134,433	102,446	31.2
Jaguar	2,960	3,409	(13.2)	4,064	(27.2)	18,798	19,119	(1.7)
LR	21,100	17,833	18.3	22,857	(7.7)	115,635	83,327	38.8

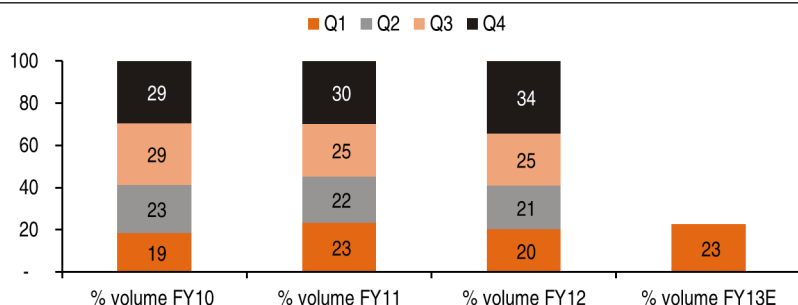
Source: Company, BRICS Research

JLR: Jaguar Land Rover

LR: Land Rover

**Monthly volume lower than expectations:** Over the last three years, average sales in Q2 have contributed ~22% of JLR's annual volume, while Q4 contributed ~31%. Using this trend as a guideline, one could estimate monthly sales of ~26,000 units in Q2. JLR's August 2012 sales of 24,060 units are below trend.

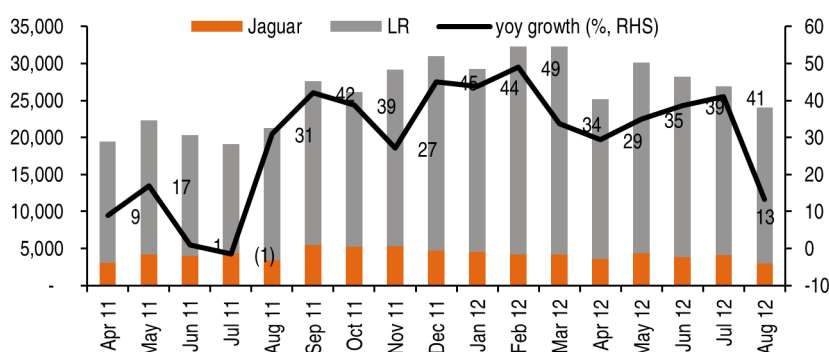
### JLR monthly run-rate slows - seasonal



Source: BRICS Research

YTFDY13, JLR reported 31% yoy growth at 134,433 units—Jaguar's sales were down 1.7% at 18,798 units while Land Rover grew 39% to 115,635 units.

### Monthly volume trend



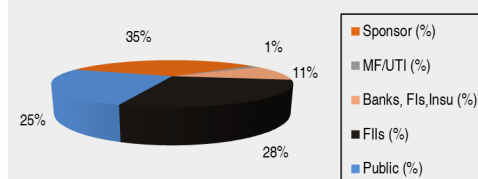
Source: Company, BRICS Research

### KEY DATA

Bloomberg	TTMT IN
Reuters	TAMO.BO
52-week high/low (Rs)	321/142
6-m avg. traded value	US\$59.1mn
Market cap	Rs816.5bn/US\$15.2bn
Shares outstanding	2,691.5mn
Face value (Rs)	Rs2

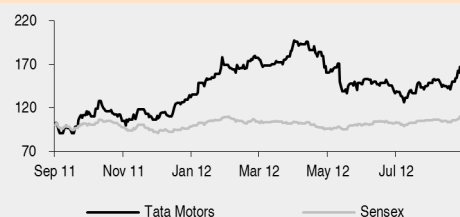
Source: Bloomberg

### SHAREHOLDING (%)



Source: Ace equity

### PRICE PERFORMANCE



Source: Bloomberg

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## MoM growth slows as UK gears for plate change

### US – luxury car sales slows, PV sales maintain rhythm

Passenger vehicle sales beat street expectations and posted 28% yoy, 12% mom growth, while luxury car sales grew slower at 24% yoy. Growth in passenger car segment has been attributed to an increase in pickup truck sales, new models and pent-up demand. The only company that reported a decline in sales was BMW, down 19% to 16,835 vehicles. JLR grew at a faster clip than the luxury market in the country. Jaguar posted strong 27% yoy, while land rover maintained its 30%+ runrate, up 33% yoy.

#### Exhibit 1: JLR's US luxury car sales slower than industry

US	Aug 12	Aug 11	yoy (%)	Jul 12	mom (%)	YTDCY12	YTDCY11	yoy (%)
Jaguar	1,029	810	27.0	1,011	1.8	8,546	7,273	17.5
Land Rover	3,727	2,807	32.8	3,320	12.3	28,038	20,641	35.8
<b>Jaguar Land Rover</b>	<b>4,756</b>	<b>3,617</b>	<b>31.5</b>	<b>4,331</b>	<b>9.8</b>	<b>36,584</b>	<b>27,910</b>	<b>31.1</b>
Total luxury car	113,234	91,621	23.6	111,629	1.4	882,242	669,725	31.7
Total passenger vehicle	650,576	509,108	27.8	583,667	11.5	6,679,582	4,943,564	35.1

Source: BRICS Research

### UK – JLR grew faster than PVs and luxury segment

As motorists in UK anticipate the arrival of the new 62-plate in September, August typically contributes a small share (~3%) of new car sales in the year. Registrations in September account for 17% of the annual total - traditionally the second largest volume month after March. Keeping this in mind, passenger car sales in UK reported flat growth yoy in August, at 59,433 units but were down ~60% mom. JLR however posted 35% yoy growth, well ahead of luxury car sales, which declined 2.4% yoy.

#### Exhibit 2: JLR's UK sales faster positive despite luxury car sales declining

UK	Aug 12	Aug 11	yoy (%)	Jul 12	mom (%)	YTDCY12	YTDCY11	yoy (%)
Jaguar	178	188	(5.3)	892	(80.0)	7,999	6,920	15.6
Land Rover	591	381	55.1	3,436	(82.8)	29,511	19,467	51.6
<b>Jaguar Land Rover</b>	<b>769</b>	<b>569</b>	<b>35.1</b>	<b>4,328</b>	<b>(82.2)</b>	<b>37,510</b>	<b>26,386</b>	<b>42.2</b>
Total luxury car	22,880	23,437	(2.4)	55,542	(58.8)	497,202	420,175	18.3
Total passenger vehicle	59433	59346	0.1	143884	(58.7)	1,260,997	1,091,755	15.5

Source: BRICS Research

### Russia – Luxury outperforms

Russia reported its best ever August passenger car sales despite recent hikes in household utility costs, and a widespread expectation among consumers that prices of imported cars would drop following WTO entry. Luxury car sales grew at a faster clip than passenger vehicles, up 30% yoy. Jaguar Land Rover posted 53% growth yoy at 1,700 units, lead by Land Rover sales.

#### Exhibit 3: JLR's Russian luxury car sales are faster than industry

Russia	Aug12	Aug11	yoy%	Jul 12	mom%	YTDCY12	YTDCY11	yoy%
Jaguar	110	85	29.4	122	(9.8)	1,021	659	54.9
Land Rover	1,590	1,023	55.4	1,586	0.3	12,668	8,023	57.9
<b>Jaguar Land Rover</b>	<b>1,700</b>	<b>1,108</b>	<b>53.4</b>	<b>1,708</b>	<b>(0.5)</b>	<b>13,689</b>	<b>8,682</b>	<b>57.7</b>
Luxury Car sales	49,910	38,175	30.7	50,579	(1.3)	221,222	160,578	37.8
Total	258,761	224,811	15.1	255,560	1.3	1,928,216	1,686,062	14.4

Source: BRICS Research

## Valuation

We believe JLR's performance will continue to drive Tata Motors' stock as it contributes 75% of revenue and ~90% of profit. While volume growth in Q3 and Q4 may be augmented by success of new Range Rover and increased consumer spending induced by QE3 and Euro bond sales, we have not included upsides from these in our valuation.

We value the standalone business at Rs37 per share, 12x our FY13 (earlier 13x) core earnings estimate, and JLR at 7x FY13 earnings (after adjusting for capitalisation for product development) at Rs304 per share. We assign 20% discount to investments and subsidiaries (Rs264 per share) to arrive at a SOTP-based target price of Rs299 per share. Maintain Buy.

### Exhibit 4: SOTP value of Tata Motors

Particulars	Basis of valuation	Rs/share
Tata Motors (A)	12x FY13E	34
Value Assigned to other subsidiaries & Investments(B)	20% discount	264
Tata Daewoo	10x FY13E	1
TML Drivelines	10x FY13E	2
Tata Technologies	10x FY13E	7
Tata Motors Finance	10x FY13E	7
Other Investments	Market Value/ Book Value	9
JLR	7x FY13E	304
Total (A+B)		299

Source: BRICS Research

## Financial summary

Income statement					Balance sheet				
(Rs mn)					(Rs mn)				
Y/E 31 March	2011	2012E	2013E	2014E	Y/E 31 March	2011	2012E	2013E	2014E
Revenue	1,231,333	1,656,545	1,842,009	2,057,440	Net fixed assets	434,931	515,677	630,172	702,522
Revenue growth (%)	34.0	34.5	11.2	11.7	Investments	25,443	50,443	62,443	74,443
Operating exp	1,063,158	1,433,432	1,609,910	1,794,068	Current assets	510,349	609,985	672,110	796,386
EBITDA	168,175	223,112	232,099	263,372	Inventories	140,705	191,568	212,469	237,787
EBITDA margin (%)	13.7	13.5	12.6	12.8	Sundry debtors	68,774	75,248	101,233	112,567
Depreciation	46,555	56,254	63,505	67,650	Cash & bank balance	109,479	85,466	70,738	125,007
EBIT	121,620	166,859	168,594	195,721	Loans & advances	117,316	157,829	175,499	196,024
MTM profit / (loss)	—	—	—	—	Other current assets	74,075	99,874	112,170	125,001
Other income	896	6,618	3,400	5,117	Total assets	1,006,571	1,211,953	1,400,572	1,609,199
Interest paid	20,454	29,822	17,877	15,789	Net worth	191,715	328,499	461,727	614,234
PBT	102,062	143,654	154,117	185,050	Share capital	6,377	6,377	6,377	6,377
Tax	12,164	(400)	13,620	25,273	Reserves & surplus	185,338	322,122	455,350	607,857
PAT	89,898	144,055	140,498	159,777	Minority interest	2,466	2,696	2,496	2,276
Minority interest	(528)	574	(500)	(550)	Total debt	327,914	277,914	247,914	217,914
EO income	(2,310)	8,315	—	—	Secured loans	195,014	195,014	195,014	195,014
APAT	92,208	135,739	140,498	159,777	Unsecured loans	132,900	82,900	52,900	22,900
PAT growth (%)	223.8	60.2	(2.5)	13.7	Current liabilities & prov	469,838	588,206	673,798	760,137
Shares o/s (mn)	2,665	2,665	2,665	2,665	Current liabilities	371,147	581,337	652,908	727,594
Fully diluted o/s shrs (mn)	2,665	2,665	2,665	2,665	Provisions	98,692	6,869	20,890	32,543
FDEPS (Rs) recurring	29.1	42.4	44.2	50.3	Net deferred tax liab	14,638	14,638	14,638	14,638
					Total liabilities	1,006,571	1,211,953	1,400,572	1,609,199

Cash flow statement				
(Rs mn)				
Y/E 31 March	2011	2012E	2013E	2014E
PBT	102,062	143,654	154,117	185,050
Depreciation	46,555	56,254	63,505	67,650
Amortisation	—	—	—	—
Interest paid	20,454	29,822	17,877	15,789
Tax paid	—	—	—	—
Chg in working capital	(20,377)	94,593	21,035	29,162
Int/div in other income	—	—	—	—
Other operations	—	—	—	—
CF from operations (a)	136,530	324,723	242,915	272,379
Capital expenditure	(62,194)	(137,000)	(178,000)	(140,000)
Chg in investments	(3,251)	(25,000)	(12,000)	(12,000)
Other investing act	—	—	—	—
Int/div in other income	—	—	—	—
CF from investments (b)	(65,446)	(162,000)	(190,000)	(152,000)
Free cash flow (a+b)	74,336	187,723	64,915	132,379
Equity raised/(repaid)	51,671	—	—	—
Debt raised/(repaid)	(25,921)	(50,000)	(30,000)	(30,000)
Interest paid	(20,454)	(29,822)	(17,877)	(15,789)
Dividend (incl tax)	(14,540)	(7,270)	(7,270)	(7,270)
Other fin activities	(70,248)	(90,754)	(12,996)	(13,601)
CF from financing (c)	(79,492)	(177,847)	(68,143)	(66,660)
Net chg in cash (a+b+c)	(8,407)	(15,123)	(15,228)	53,719
Opening balance	87,433	109,479	85,466	70,738
Closing balance	109,479	85,466	70,738	125,007

Key ratios				
Y/E 31 March	2011	2012E	2013E	2014E
<b>Valuation ratios</b>				
PE (x)	9.6	6.6	6.3	5.5
CEPS (Rs)	51.2	75.2	76.5	85.3
PCE (x)	5.4	3.7	3.6	3.3
BVPS (Rs)	301	515	724	963
Price/Book (x)	0.9	0.5	0.4	0.3
EV/EBITDA (x)	5.4	4.0	3.7	3.0
EV/Revenue (x)	0.7	0.5	0.5	0.4
Dividend yield (%)	1.1	1.1	1.1	1.1
Cash flow yield (%)	10.0	25.4	8.8	17.9
<b>Performance ratios</b>				
Raw material to sales (%)	71.5	66.7	66.4	66.5
SGA to sales (%)	—	—	—	—
Effective tax rate (%)	11.9	(0.3)	8.8	13.7
PAT margin (%)	7.3	8.7	7.6	7.8
DPS (Rs)	3.0	3.0	3.0	3.0
Dividend payout ratio (%)	10	7	7	6
<b>Return ratios</b>				
RoE avg (%)	67.4	52.2	35.6	29.7
RoCE avg (%)	23.3	27.4	23.7	23.5
Fixed asset turnover (x)	1.7	2.0	1.9	1.8
<b>Working capital ratios</b>				
Inventory (days)	58	63	63	63
Payable (days)	110	128	129	129
Receivable (days)	20	17	20	20
Working capital (days)	(31)	(48)	(46)	(46)
<b>Leverage ratios</b>				
Interest cost (%)	6.0	9.8	6.8	6.8
Net debt/equity (x)	1.1	0.6	0.4	0.2
Interest coverage (x)	5.9	5.6	9.4	12.4

#### BRICS RECOMMENDATION SCALE

<b>BUY:</b>	More than 15% upside
<b>ADD:</b>	Upside up to 15% (between 0% and 15%)
<b>REDUCE:</b>	Downside up to 15% (between 0% and –15%)
<b>SELL:</b>	More than 15% downside

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